

CITY OF MONTEZUMA, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2011

Table of Contents

		<u>Page</u>
City Officials		2
Independent Auditor's Report		3-4
Management's Discussion and Analysis (MD&A)		5-9
<u>Basic Financial Statements:</u>	<u>Exhibit</u>	
Government-Wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	13
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	15
Component Unit Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	F	16
Statement of Fiduciary Net Assets	G	17
Notes to Financial Statements		18-23
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		25
Notes to Required Supplementary Information - Budgetary Reporting		26
<u>Other Supplementary Information:</u>	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Non-major Governmental Funds	1	28
Schedule of Indebtedness	2	29
Bond and Note Maturities	3	30
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	4	31
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5	32
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>		33-34
Schedule of Findings		35-36

City of Montezuma, Iowa
City Officials
Year Ended June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James M. Hicks	Mayor	January, 2012
Frank R. Brownell, III	Mayor Pro Tem	January, 2012
Ronald Willrich	Council Member	January, 2012
Ronald Hedrick	Council Member	January, 2012
Mark Bolen	Council Member	January, 2014
Donald Vos	Council Member	January, 2014
 Meryll Hicks	 Clerk/Treasurer	 Indefinite
William J. Sueppel	Attorney	Indefinite



Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 15, 2011, on our consideration of the City of Montezuma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-9 and 25-26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Another CPA firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ending June 30, 2004 and we audited the financial statements for the six years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 15, 2011

Management's Discussion and Analysis

The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 16.9%, or approximately \$218,000, from fiscal 2010 to 2011. Sales of assets were down \$112,000 and Tax increment Financing receipts were down \$41,000.
- Disbursements of the City's governmental activities increased 5.3%, or approximately \$52,000 from fiscal 2010 to fiscal 2011. Public works expenditures were up \$102,000 due to projects.
- The City's total cash basis net assets increased 0.7%, or approximately \$27,000 from June 30, 2010 to June 30, 2011. The current year governmental activities increased \$30,000 and the assets of the business type activities decreased (\$3,000).

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds, indebtedness, changes in fiduciary assets and liabilities, and a comparative schedule of receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general governmental, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water works, sanitary sewer, recycling, and gas systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Local Option Sales Tax Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in thousands)		
	Year ended June 30,	
	2011	2010
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 93	94
Operating grants, contributions and restricted interest	164	156
Capital grants, contributions and restricted interest	34	39
General receipts:		
Property tax	543	557
Tax increment financing	7	48
Other city taxes	131	130
Grants and contributions not restricted to specific purposes	10	57
Payment in lieu of taxes	48	58
Unrestricted interest earnings	9	7
Bond proceeds	-	-
Miscellaneous	31	30
Sale of Assets	1	113
Transfer in	1	65
Total receipts and transfers	1,072	1,354
Disbursements:		
Public safety	179	183
Public works	326	224
Health and social services	-	-
Culture and recreation	144	186
Community and economic development	-	-
General government	142	114
Debt service	251	283
Capital projects	-	-
Total disbursements	1,042	990
Increase in cash basis net assets	30	364
Cash basis net assets beginning of year	2,434	2,070
Cash basis net assets end of year	\$ 2,464	2,434

The City's total receipts and transfers for governmental activities decreased by 20.8%, or \$282,000. The decrease in receipts is mainly due to less sales of assets and lower transfers. The total cost of all programs and services increased by approximately \$52,000, or 5.3%. The increase in programs and services was primarily due to more public works expenditures.

The cost of all governmental activities this year was \$1,042,000 compared to \$990,000 last year. However, as shown in the Statement of Activities and Net Assets on page 11, the amount taxpayers ultimately financed for these activities was only \$751,000 because some of the cost was paid by those directly benefiting from the programs (\$94,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$195,000). Overall, the City's governmental activities program receipts increased in 2011 from approximately \$289,000 to approximately \$291,000. The City paid for the remaining "public

benefit" portion of governmental activities (\$780,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest, and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 692	642
Sewer	123	121
Recycling	65	66
Gas	812	949
General receipts:		
Unrestricted interest earnings	3	4
Other general receipts	67	25
Loan proceeds	364	37
Total receipts	<u>2,126</u>	<u>1,844</u>
Disbursements:		
Water	1,097	494
Sewer	83	41
Recycling	63	64
Gas	885	1,141
Total disbursements	<u>2,128</u>	<u>1,740</u>
Change in cash basis net assets before transfers	(2)	104
Transfers, net	<u>(1)</u>	<u>(65)</u>
Change in cash basis net assets	(3)	39
Cash basis net assets beginning of year	<u>1,587</u>	<u>1,548</u>
Cash basis net assets end of year	<u>\$ 1,584</u>	<u>1,587</u>

Total business type activities receipts for the fiscal year were \$2.126 million compared to \$1.844 million last year, mainly due to increased loan proceeds. Total disbursements and transfers for the fiscal year increased 18.0% to a total of \$2.129 million, mainly due to water capital project expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$2,463,962, an increase of \$30,069 from last year's total of \$2,433,893.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$26,661 to \$635,588, due primarily to loan proceeds in excess of capital project expenditures.
- The Sewer Fund cash balance increased by \$38,992 to \$438,248, due primarily to fewer transfers out.

- The Recycling Fund cash balance increased by \$2,527 to \$61,133, due primarily to larger operating receipts than disbursements.
- The Gas Fund cash balance decreased by \$71,691 to \$448,764 due to a decrease in revenues and expenditures.

BUDGETARY HIGHLIGHTS

The City's budget was amended during the year for additional public works, capital projects and business type activities disbursements.

The City's receipts were \$361,680 more than budgeted, primarily in charges for services.

The City's disbursements were \$4,327,205 more than budgeted, primarily in business type activities. The budget did not take into account \$4,000,000 in refinanced debt and the repayment of \$1,000,000 in loans related to the wind turbine when it was decided not to proceed with that project at this time. Two areas of the budget were exceeded by expenditures. The business type activities and the debt service functions exceeded the budget for fiscal year 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$1,481,000 in bonds and other long-term debt, compared to approximately \$1,313,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General obligation bonds	\$ 1,080	1,235
Urban renewal tax increment financing revenue bonds	-	41
Water Revenue-SRF Loan	401	37
Total	\$ 1,481	1,313

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,080,000 is below its total calculated constitutional debt limit of \$3.7 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Montezuma's elected and appointed officials considered many factors when calculating the fiscal year 2012 budget. The amounts levied for property taxes increased by approximately 6.5% resulting in an additional \$35,851 over the request from the previous year. The Debt Service obligation for FY 12 increased by \$50,800 over the previous year. The difference in the Debt Service obligation and property tax collections will be absorbed by existing fund balances.

COMPONENT UNIT

The separately issued financial statements for the Montezuma Municipal Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Meryll Hicks, City Clerk, at the address listed below.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa.

Basic Financial Statements

City of Montezuma, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2011

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets						
	Program Receipts			Primary Government		Component Unit	
	Capital Grants, Operating Grants, Contributions and Restricted			Governmental		Business Type	
	Disbursements	Charges for Service	Contributions and Restricted Interest	Interest	Activities	Activities	Total
Functions/Programs:							
Primary government:							
Governmental activities:							
Public safety	\$ 178,712	80,444	15,763	33,334	(49,171)	-	(49,171)
Public works	326,212	-	132,730	-	(193,482)	-	(193,482)
Culture and recreation	143,730	652	15,020	1,014	(127,044)	-	(127,044)
General government	141,931	11,905	-	-	(130,026)	-	(130,026)
Debt service	251,373	-	-	-	(251,373)	-	(251,373)
Total governmental activities	1,041,958	93,001	163,513	34,348	(751,096)	-	(751,096)
Business type activities:							
Water	1,097,231	671,211	-	67,414	-	(358,606)	(358,606)
Sewer	83,387	122,851	-	-	-	39,464	39,464
Recycling	63,174	65,628	-	-	-	2,454	2,454
Gas	884,778	807,896	-	-	-	(76,882)	(76,882)
Total business type activities	2,128,570	1,667,586	-	67,414	-	(393,570)	(393,570)
Total primary government	\$ 3,170,528	1,760,587	163,513	101,762	(751,096)	(393,570)	(1,144,666)
Component Unit:							
Municipal Light and Power Plant	\$ 8,067,608	3,547,958	-	-	-	-	(4,519,650)
	\$ 8,067,608	3,547,958	-	-	-	-	(4,519,650)
General Receipts:							
Property tax levied for:							
General purposes				\$ 388,032	-	388,032	-
Tax increment financing				6,779	-	6,779	-
Debt service				155,120	-	155,120	-
Local option sales tax				130,827	-	130,827	-
Grants and contributions not restricted to specific purposes				10,328	-	10,328	-
Payment in lieu of taxes				48,151	-	48,151	-
Unrestricted interest on investments				8,814	2,868	11,682	5,400
Loan proceeds				-	363,960	363,960	3,820,000
Miscellaneous				31,442	24,271	55,713	1,311
Sale of Assets				632	-	632	-
Transfers				1,040	(1,040)	-	-
Total general receipts and transfers				781,165	390,059	1,171,224	3,826,711
Change in cash basis net assets				30,069	(3,511)	26,558	(692,939)
Cash basis net assets beginning of year				2,433,893	1,587,244	4,021,137	2,883,923
Cash basis net assets end of year				\$ 2,463,962	1,583,733	4,047,695	2,190,984
Cash Basis Net Assets							
Restricted:							
Non-expendable:							
Library Permanent Fund				\$ 3,500	-	3,500	-
Expendable:							
Public Streets				185,657	-	185,657	-
Urban renewal				1,796	-	1,796	-
Debt service/improvements				13,688	14,232	27,920	781,178
Memorials/Designated Contributions				38,402	-	38,402	-
Other purposes				315,925	-	315,925	131,000
Unrestricted				1,904,994	1,569,501	3,474,495	1,278,806
Total cash basis net assets				\$ 2,463,962	1,583,733	4,047,695	2,190,984

See notes to financial statements.

Exhibit B

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2011

	General	Debt Service	Local Option Sales Tax	Non-major	Total
Receipts:					
Property tax	\$ 388,032	155,120	-	-	543,152
Tax increment financing collections	-	-	-	6,779	6,779
Other city tax	-	-	130,827	-	130,827
Licenses and permits	2,913	-	-	-	2,913
Use of money and property	17,271	105	430	-	17,806
Intergovernmental	12,940	-	-	132,730	145,670
Charges for service	80,913	-	-	-	80,913
Private contributions	51,152	-	-	-	51,152
Miscellaneous	91,143	-	-	-	91,143
Total receipts	644,364	155,225	131,257	139,509	1,070,355
Disbursements:					
Operating:					
Public safety	178,712	-	-	-	178,712
Public works	156,175	-	72,324	97,713	326,212
Culture and recreation	143,730	-	-	-	143,730
General government	141,931	-	-	-	141,931
Debt service	-	207,066	-	44,307	251,373
Total disbursements	620,548	207,066	72,324	142,020	1,041,958
Excess (deficiency) of receipts over (under) disbursements	23,816	(51,841)	58,933	(2,511)	28,397
Other financing sources:					
Sale of assets	632	-	-	-	632
Operating transfers in(out)	-	36,040	(35,000)	-	1,040
Total other financing sources	632	36,040	(35,000)	-	1,672
Net change in cash balances	24,448	(15,801)	23,933	(2,511)	30,069
Cash balances beginning of year, as restated	1,918,948	29,489	291,992	193,464	2,433,893
Cash balances end of year	\$ 1,943,396	13,688	315,925	190,953	2,463,962
Cash Basis Fund Balances					
Nonspendable - permanent endowment library	\$ -	-	-	3,500	3,500
Restricted for:					
Debt service	-	13,688	-	-	13,688
Public Streets	-	-	-	185,657	185,657
Urban Renewal	-	-	-	1,796	1,796
Klindt memorial	1,647	-	-	-	1,647
Fire Department memorial	28,749	-	-	-	28,749
Library Building	8,006	-	-	-	8,006
Other purposes	-	-	315,925	-	315,925
Unassigned	1,904,994	-	-	-	1,904,994
Total cash basis fund balances	\$ 1,943,396	13,688	315,925	190,953	2,463,962

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Assets

Governmental Funds

As of and for the year ended June 30, 2011

Total governmental funds cash balances (Exhibit A)	\$ 2,463,962
Cash basis net assets of governmental activities (Exhibit B)	\$ 2,463,962
Net change in cash balances (Exhibit B)	\$ 30,069
Change in cash balance of governmental activities (Exhibit A)	\$ 30,069

See notes to financial statements.

Exhibit D

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 671,211	122,851	65,628	807,896	1,667,586
Miscellaneous	20,456	-	-	3,815	24,271
Total operating receipts	691,667	122,851	65,628	811,711	1,691,857
Operating disbursements:					
Business type activities	759,577	83,387	63,174	884,778	1,790,916
Total operating disbursements	759,577	83,387	63,174	884,778	1,790,916
Excess (deficiency) of operating receipts over (under) operating disbursements	(67,910)	39,464	2,454	(73,067)	(99,059)
Non-operating receipts (disbursements):					
Interest on investments	851	568	73	1,376	2,868
SRF Loan Proceeds	363,960	-	-	-	363,960
Intergovernmental	67,414	-	-	-	67,414
Capital projects	(337,654)	-	-	-	(337,654)
Total non-operating receipts (disbursements)	94,571	568	73	1,376	96,588
Excess (deficiency) of receipts over (under) disbursements	26,661	40,032	2,527	(71,691)	(2,471)
Operating transfers out	-	(1,040)	-	-	(1,040)
Net change in cash balances	26,661	38,992	2,527	(71,691)	(3,511)
Cash balances beginning of year	608,927	399,256	58,606	520,455	1,587,244
Cash balances end of year	\$ 635,588	438,248	61,133	448,764	1,583,733
Cash Basis Fund Balances					
Restricted					
Debt Service	\$ 14,232	-	-	-	14,232
Unrestricted	621,356	438,248	61,133	448,764	1,569,501
Total cash basis fund balances	\$ 635,588	438,248	61,133	448,764	1,583,733

See notes to financial statements.

Exhibit E

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Assets

Proprietary Funds

As of and for the year ended June 30, 2011

Total enterprise funds cash balances (Exhibit D)	\$ 1,583,733
Cash basis net assets of business type activities (Exhibit A)	\$ 1,583,733
Net change in cash balances (Exhibit D)	\$ (3,511)
Change in cash balance of business type activities (Exhibit A)	\$ (3,511)

See notes to financial statements.

Exhibit F

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Component Unit
As of and for the year ended June 30, 2011

	Municipal Light and Power Plant
Operating receipts:	
Charges for service	\$ 3,547,958
Total operating receipts	<u>3,547,958</u>
Operating disbursements:	
Business type activities	<u>2,872,197</u>
Total operating disbursements	<u>2,872,197</u>
Excess of operating receipts over operating disbursements	675,761
Non-operating receipts (disbursements):	
Rental income	1,311
Loan proceeds	3,820,000
Interest on investments	5,400
Miscellaneous	(7,308)
Debt service	<u>(5,188,103)</u>
Total non-operating disbursements	<u>(1,368,700)</u>
Excess of receipts over disbursements	<u>(692,939)</u>
Net change in cash balances	(692,939)
Cash balances beginning of year	<u>2,883,923</u>
Cash balances end of year	<u>\$ 2,190,984</u>
Cash Basis Fund Balances	
Reserved for debt service/improvements	\$ 781,178
CMMPA required deposit	131,000
Unreserved	<u>1,278,806</u>
Total cash basis fund balances	<u>\$ 2,190,984</u>

See notes to financial statements.

Exhibit G

City of Montezuma, Iowa
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Agency</u>
Assets	
Cash and investments	<u>\$ 1,203</u>
Total assets	<u>1,203</u>
Liabilities	
Accounts payable	<u>1,203</u>
Total liabilities	<u>1,203</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, recycling and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Non-expendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The Special Revenue, Local Option Sales Tax Fund is used to account for local option sales tax collections and expenditures as specified in the election to collect those taxes.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Recycling Fund accounts for the operation and maintenance of the City's recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the city's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financials statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2011 general fund cash is \$30,114 in library donations and earnings and \$3,500 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$30,114 is available for use by the library whenever requested by the library board. The \$3,500 may not be spent; only earnings from those contributions will be available.

At June 30, 2011 the City had the following investments:

Type	Carrying Amount	Fair Value
Certificate of deposit	\$ 45,000	45,000
Certificate of deposit	20,000	20,000
Certificate of deposit	37,108	37,108
Certificate of deposit	24,503	24,503
Certificate of deposit	32,738	32,738
Total	<u>\$ 159,349</u>	<u>159,349</u>

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and water revenue bonds are as follows:

Year ending June 30,	General		Revenue Bonds		Total	
	Obligation Notes		Water			
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 160,000	44,376	-	12,027	160,000	56,403
2013	170,000	37,976	76,000	12,027	246,000	50,003
2014	175,000	31,091	79,000	9,747	254,000	40,838
2015	185,000	23,916	81,000	7,377	266,000	31,293
2016	190,000	16,285	84,000	4,947	274,000	21,232
2017	200,000	8,400	80,896	2,426	280,896	10,826
Total	\$ 1,080,000	162,044	400,896	48,551	1,480,896	210,595

A. General Obligation Bonds

The City of Montezuma issued \$1,615,000 in general obligation bond in September, 2007 for the purpose of carrying out a street improvement project. The total principal and interest payments remaining on the general obligation bond issue is \$1,242,044, payable through 2017.

B. Revenue Notes

The City of Montezuma entered into a Water Revenue Loan and Disbursement Agreement Anticipation Project Note issued on December 23, 2009 to the Iowa Finance Authority in an amount not to exceed \$427,000. The loan proceeds are deliverable in evidence of the City's obligation to repay amounts and shall bear interest at 0%. The balance in this note, \$152,821, was transferred to the SRF – Series 2011 note when it was established on April 1, 2011.

The City of Montezuma entered into a Water Revenue loan and Disbursement agreement with the State Revolving Fund. The City has pledged future water customer receipts, net of specified operating disbursements to repay this loan. The April 1, 2011 loan is being received by the City as funds are expended with a maximum loan of \$2,125,000 available. As of June 30, 2011, \$400,896 had been extended. The interest rate over the loan's life is 3%. The bonds mature June 1, 2032. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. The principal is due and payable annually commencing June 1, 2013, and annually thereafter. The final repayment schedule has not been set since the loan proceeds are still being disbursed. We have used the estimated schedule produced by the Iowa Finance Authority to list the timing of estimated payments equal to the current loan balance.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts with the Enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account within the Enterprise Funds. This account is to be used to transfer money to the sinking fund whenever necessary to prevent or remedy a default in the payment of principal or interest. As long as the sinking fund has the full amounts required any balance in the surplus fund is available to be used as needed for the operation of the utility.

Total interest charged to expense during the fiscal year was \$59,944. None was associated with product financing arrangements or capitalized enterprise fund assets.

(4) Pension and Retirement Benefits

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009, were \$27,798, \$24,542, and \$22,692, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – There are three medical/prescription drug plans which provide benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There are seven active employees in the City's plan, three active employees in the Water department's plan and four active employees and one early retiree in the Electric Utility's plan at year end.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are as follows:

	Single	Family
City	\$ 571	1,435
Water Department	637	1,598
Electric Utility	499	1,255

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2011, the City contributed \$115,388 and plan members eligible for benefits contributed \$0 to the plan. The Water Department contributed \$58,125 and plan members eligible for benefits contributed \$0 to the plan. The Electric Utility contributed \$47,300 and plan members contributed \$0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011 is \$15,998. This liability has been computed based on rates in effect at June 30, 2011.

(7) Interfund Transfers

The details of interfund transfers to the year ended June 30, 2011 are as follows:

Transfer to:	Transfer from:	Amount
Debt Service	Sewer - Enterprise Fund	\$ 1,040
Debt Service	Local Option Sales Tax	35,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Transactions Between the City and the Component Unit

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (26,982)	-
Water Dept. Billing/Meter Reading	(26,512)	-
Gas Dept. Electric Use	(3,032)	-
Gas Dept. Billing/Meter Reading	(26,934)	-
General City Electric Use	(62,682)	-
Computer Maintenance	(3,842)	-
Power Plants - Taxes in lieu	-	48,151
Totals	<u>\$ (149,984)</u>	<u>48,151</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,586 during the year ended June 30, 2011.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Commitments and Contingencies

On December 6, 2006, the City of Montezuma Light & Power plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The total commitment is for \$100,000. As of June 30, 2011, none of this had been paid.

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	General	Capital Projects
Balances June 30, 2010 as previously reported	\$ 1,645,638	273,310
Change in fund type classification per implementation of GASB Statement No. 54	273,310	(273,310)
Balances July 1, 2010 as restated	<u>\$ 1,918,948</u>	<u>-</u>

Required Supplementary Information

City of Montezuma, Iowa
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances
Budgetary and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2011

	Budgeted Amounts					
	Governmental Funds Actual	Proprietary Funds Actual	Net	Original	Final	Final to Net Variance
Receipts:						
Property tax	\$ 543,152	-	543,152	541,149	541,149	2,003
Tax increment financing collections	6,779	-	6,779	30,000	30,000	(23,221)
Other city tax	130,827	-	130,827	129,644	129,644	1,183
Licenses and permits	2,913	-	2,913	2,725	2,725	188
Use of money and property	17,806	9,579	27,385	4,500	4,500	22,885
Intergovernmental	145,670	67,414	213,084	245,000	245,000	(31,916)
Charges for services	80,913	5,215,544	5,296,457	4,972,465	4,972,465	323,992
Private contributions	51,152	-	51,152	-	-	51,152
Miscellaneous	91,143	24,271	115,414	100,000	100,000	15,414
Total receipts	1,070,355	5,316,808	6,387,163	6,025,483	6,025,483	361,680
Disbursements:						
Public safety	178,712	-	178,712	212,125	212,125	33,413
Public works	326,212	-	326,212	329,369	409,369	83,157
Health & Social Services	-	-	-	5,000	5,000	5,000
Culture and Recreation	143,730	-	143,730	181,083	181,083	37,353
Community & economic development	-	-	-	53,482	53,482	53,482
General government	141,931	-	141,931	154,360	154,360	12,429
Debt service	251,373	-	251,373	204,776	204,776	(46,597)
Capital projects	-	-	-	-	400,000	400,000
Business type activities	-	10,196,178	10,196,178	4,854,486	5,269,486	(4,926,692)
Total disbursements	1,041,958	10,196,178	11,238,136	5,994,681	6,889,681	(4,348,455)
Excess (deficiency) of receipts over (under) disbursements	28,397	(4,879,370)	(4,850,973)	30,802	(864,198)	(3,986,775)
Other financing sources, net	1,672	4,182,920	4,184,592	-	-	(4,184,592)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	30,069	(696,450)	(666,381)	30,802	(864,198)	(8,171,367)
Balances beginning of year	2,433,893	4,471,167	6,905,060	5,603,900	5,603,900	1,301,160
Balances end of year	\$ 2,463,962	3,774,717	6,238,679	5,634,702	4,739,702	(6,870,207)

See accompanying independent auditor's report.

City of Montezuma, Iowa
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$895,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities and debt service functions.

Other Supplementary Information

Schedule 1

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Non-Major Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue			
	Road Use Tax	Urban Renewal Tax Increment	Permanent Fund	Total
Receipts:				
Tax increment financing collections	\$ -	6,779	-	6,779
Use of money and property	-	-	-	-
Intergovernmental	132,730	-	-	132,730
Total receipts	132,730	6,779	-	139,509
Disbursements:				
Operating:				
Public works	97,713	-	-	97,713
Debt service	-	44,307	-	44,307
Total disbursements	97,713	44,307	-	142,020
Excess (deficiency) of receipts over (under) disbursements	35,017	(37,528)	-	(2,511)
Cash balances beginning of year	150,640	39,324	3,500	193,464
Cash balances end of year	\$ 185,657	\$ 1,796	\$ 3,500	190,953
Cash Basis Fund Balances				
Nonspendable - permanent endowment library	\$ -	-	3,500	3,500
Restricted for:				
Public Streets	185,657	-	-	185,657
Urban renewal	-	1,796	-	1,796
Total cash basis fund balances	\$ 185,657	1,796	3,500	190,953

See accompanying independent auditor's report.

Schedule 2

City of Montezuma, Iowa
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Street	9/1/2007	3.8-4.2%	\$1,615,000	\$ 1,235,000		155,000	1,080,000	50,576	3,698
				<u>\$ 1,235,000</u>	<u>-</u>	<u>155,000</u>	<u>1,080,000</u>	<u>50,576</u>	<u>3,698</u>
Urban renewal tax increment financing:									
(TIF) Revenue bonds	2/22/1995	8.00-8.50%	\$370,000	\$ 41,000	-	41,000	-	3,485	-
Water Revenue Notes:									
SRF-Series 2011	4/1/2011	3.00%	Max \$2,125,000	\$ -	400,896	-	400,896	5,883	1,002
SRF-Line of Credit	12/23/2009	0.00%	Max \$427,000	36,936	115,885	152,821	-	-	-
				<u>\$ 36,936</u>	<u>516,781</u>	<u>152,821</u>	<u>400,896</u>	<u>5,883</u>	<u>1,002</u>

Schedule 3

City of Montezuma, Iowa
Bond and Note Maturities
Year ended June 30, 2011

Year Ending June 30,	General Obligation bonds		SRF	
	Street		Water Revenue Bonds	
	Issued 9-1-2007		Issued 4-1-2011	
	Interest Rates	Amount	Interest Rates	Amount
2012	4.00%	\$ 160,000	3.00%	-
2013	4.05%	170,000	3.00%	76,000
2014	4.10%	175,000	3.00%	79,000
2015	4.13%	185,000	3.00%	81,000
2016	4.15%	190,000	3.00%	84,000
2017	4.20%	200,000	3.00%	80,896
		<u>\$ 1,080,000</u>		<u>400,896</u>

See accompanying independent auditor's report.

Schedule 4

City of Montezuma, Iowa
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 5,655	-	4,452	1,203
Liabilities				
Accounts payable	\$ 5,655	-	4,452	1,203

See accompanying independent auditor's report.

City of Montezuma, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
For the Last Ten Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Receipts:										
Property tax	\$ 543,152	556,514	538,865	508,001	480,742	476,022	459,199	431,436	414,419	421,509
Tax increment financing collections	6,779	47,711	48,184	47,695	45,124	43,733	46,885	49,794	47,658	50,196
Other taxes	130,827	130,600	128,568	166,417	-	-	986	-	-	-
Licenses & permits	2,913	2,485	2,725	2,830	-	-	-	-	-	-
Use of money and property	17,806	10,519	28,516	82,230	75,417	41,662	29,397	19,891	17,747	11,849
Intergovernmental	145,670	194,512	245,238	353,343	121,433	122,541	122,047	136,597	159,142	161,796
Charges for service	80,913	88,211	97,647	81,596	82,222	89,033	74,911	88,461	83,344	44,109
Miscellaneous	142,295	146,363	180,486	153,127	97,860	103,531	481,620	77,702	55,858	39,129
Total	<u>\$ 1,070,355</u>	<u>1,176,915</u>	<u>1,270,229</u>	<u>1,395,239</u>	<u>902,798</u>	<u>876,522</u>	<u>1,215,045</u>	<u>803,881</u>	<u>778,168</u>	<u>728,588</u>
Disbursements:										
Operating:										
Public safety	\$ 178,712	183,285	286,586	325,039	164,930	260,458	159,325	178,665	150,188	138,109
Public works	326,212	224,066	270,817	259,360	241,578	193,131	201,900	262,332	225,916	209,845
Health and social services	-	-	-	-	2,750	-	2,500	6,730	-	-
Culture and recreation	143,730	186,233	117,837	114,126	108,146	126,386	399,413	121,897	80,391	95,573
Community & economic development	-	-	-	151,878	-	-	-	-	-	-
General government	141,931	114,141	106,235	109,311	104,242	103,364	100,203	102,222	95,043	81,861
Debt service	251,373	282,731	285,994	334,911	165,895	169,962	169,803	-	124,620	123,580
Capital projects	-	-	358,000	1,405,527	-	-	-	-	-	-
Total	<u>\$ 1,041,958</u>	<u>990,456</u>	<u>1,425,469</u>	<u>2,700,152</u>	<u>787,541</u>	<u>853,301</u>	<u>1,033,144</u>	<u>671,846</u>	<u>676,158</u>	<u>648,968</u>

See accompanying independent auditor's report.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Montezuma Cash City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Montezuma's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Montezuma's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma and other parties to whom the City may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 15, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the budget in the business type activities and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, Public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2011 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Heating System & Repairs	\$455
Gregary Shaver, Husband of Light Plant Office Staff Proprietor, Greg Shaver	Computer Equipment & Repairs	\$1,131

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions do not appear to represent conflicts of interest since total transactions with the individuals were less than \$1,500 during the fiscal year.

City of Montezuma, Iowa
Scheduling of Findings
Year Ended June 30, 2011

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.